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PENSIONS &

InvestmentAge

THE NEWSPAPER OF CORPORATE AND PUBLIC FUND FINANCE

10 largest ESOPs formed in 1989*

Company	$ mils.
Procter & Gamble	1,000
Lockheed	500
Whitman Industries	500
U S WEST	500
May Department Stores	400
Nu-med	150
Aristech Chemical	70
Parker-Hannifin	70
Federal-Mogul	62
Circus Circus	50
SPX	50

*In terms of market value of shares owned
Source: National Center for Employee Ownership, Oakland, Calif.

Lockheed Corp., creator of this Hubble space telescope, was among those to start or expand an ESOP amid takeover pressures.

Reversions hit

Bill locks up surplus assets

By Joel Chernoff

WASHINGTON — Employers would be virtually barred from recapturing surplus pension assets under a bill proposed by Sen. Howard Metzenbaum, employee benefits experts fear.

Critics also contend the Ohio Democrat's latest effort to restrict employers' ability to recoup excess assets from terminated pension plans would lead to weaker funding practices, and would provide a way to require cost-of-living increases for retirees.

But supporters of the "Employee Pension Protection Act of 1989" say the measure is long overdue, and they dismiss the criticisms.

"The bill allows employers access to true plan surplus, but not to other plan assets," said Karen Ferguson, director of the Pension Rights Center, Washington.

The bill, S. 685, would set up a three-tiered system for determining how much an employer could take out of a terminated plan:

- The employer could take out the most if it provides a "complete replacement plan" identical to the terminated plan.

Basically, an employer would leave in a cushion of 125% of projected benefit liabilities in the new plan to protect plan benefits — a sharp departure from a 1987 bill that would have based the cushion on current liabilities.

Photo by Tom Reed

Sen. Howard Metzenbaum's bill creates a three-tiered proposal for plan terminations.

Then, a one-time cost-of-living adjustment would be provided to make up any loss from inflation for current retirees and vested former employees. The employer could recapture whatever assets remained.

- Employers creating a less generous defined benefit or any defined contribution plan would have to provide a cushion of 135%, plus the one-time inflation adjustment for retirees and vested former employees.
- Employers failing to provide any successor plan or creating a "sham" plan — a plan that fails to provide certain minimum benefits specified in the bill — would get no reversion. The 135% cushion would be allocated to active workers; retirees would get the inflation adjustment; and active workers would, on a pro rata basis, get any money remaining.

The bill also would impose sweeping fiduciary liability on plan sponsors or fiduciaries for five years after the distribution of plan assets following a termination — even if those fiduciaries no longer are in place when the violation occurs.

The bill would affect all distributions of assets occurring on or after April 4, 1989, apparently catching some 600 plan terminations being held up by a moratorium on termination approvals by the Internal Revenue Service. The moratorium expires May 1.

Meanwhile, reversions still would be subject to corporate-

Continued on page 46

ESOPs boom as a defense

By Barry B. Burr

Twenty companies have placed more than $3.581 billion of company stock into new or expanded leveraged employee stock ownership plans since the beginning of 1989.

Indeed, ESOPs are becoming a popular tool to thwart takeovers, restructure the form of retirement benefits and to realize new tax advantages reducing the cost of such benefits.

Most recently, Tribune Co. greatly enlarged its ESOP and Lockheed Corp. set one up, both amid takeover speculation. NWA Inc., faced with two unsolicited takeover proposals, is considering an ESOP with union employees.

They join Polaroid Corp. Procter & Gamble Co. and some 24 other companies that have used ESOPs in the past year to place a large amount of stock with employees who supposedly would support existing management against a hostile takeover.

"No doubt the Polaroid decision has spurred more companies to take a look at this," said Corey Rosen, executive director of the National Center of Employee Ownership,

Continued on page 42

Bond muscle flexed

By Marlene Givant Star

CHICAGO — Noteholders of Farley Inc. — including Kemper Financial Services Inc., The Putnam Cos. and Rosecliff Inc. — won substantial cash compensation, an equity stake and stiffened covenants in exchange for consenting to Farley's acquisition of West Point-Pepperell Inc.

—*Continued on page 43*

Farley's noteholders won a major victory in bond negotiations over the acquisition of textiles manufacturer West Point-Pepperell.

INSIDE

Proxy time again
Ballots are only half the story - 15

Cracks forming?
U.K. market sag [illegible] some - 21

On the rebound
Office market in South coming on strong - 27

Riding high once more
Industries, institutions flood short-term markets - 35

LATE NEWS

Retiree-health bills hit Congress

WASHINGTON — House Ways and Means Committee Chairman Dan Rostenkowski, D-Ill., last week was expected to propose sweeping relief for employers from controversial non-discrimination rules covering health plans.

The bill would replace complex and costly testing procedures under Section 89 of the tax code with a single simplified test based solely on how an employer's health program is designed.

In addition, the test would cover health plans only, dropping life insurance plans. Employees who work less than 25 hours per week would not have to be considered in the tests, up from 17.5 hours per week in the current law. Hearings on the bill are expected to be held in early May.

In other major health-related legislation unveiled last week:

- Sen. Edward Kennedy, D-Mass., introduced a revised version of legislation mandating employer-provided health insurance.

Despite concessions made to small business, groups representing both major and small employers still oppose the measure, which would require employers to offer minimum levels of health coverage to employees working at least 17.5 hours per week and their dependents.

- Legislation permitting employers to set up tax-favored trusts to fund retiree-health insurance was introduced by Reps. Rod Chandler, R-Wash., Ronnie Flippo, D-Ala., and Sen. David Pryor, D-Ark. The legislation also would allow employers to use surplus pension assets to pay for retiree-health or long-term care coverage.

Lockheed links benefits, service

CALABASAS, Calif. — To curtail its skyrocketing medical-care costs, Lockheed Corp. will link payment of health-care benefits for early retirees to the number of years of employment with the company, effective 1990. The change won't affect employees who retire at or after age 65.

"The objective of the new plan is to provide company-paid medical coverage in proportion to actual years of services," said Dan Tellep, chairman and chief executive officer, in a letter to employees.

The company currently pays nearly all the cost of retiree medical coverage, requiring only a $10 monthly premium from employees.

Morgan Stanley nets realty deal

NEW YORK — Morgan Stanley Realty Inc. won the assignment to sell the Pan American Properties and Buckingham Holdings property package, valued at up to $1 billion.

The property package, representing the two real estate investment trusts of the British Coal Corp. pension funds, mainly consists of Southern California office buildings and shopping centers, with some industrial and hotel properties.

Paul McAuliffe, a vice president at Morgan Stanley Realty, said the offering book on the properties will not be ready until mid-May and will include building information but no financials; those will follow the signing of a confidentiality agreement.

Equifax alters overseas portfolio

ATLANTA — Equifax Inc. has hired Hill Samuel/Investment Advisers Ltd., Minneapolis, and Mellon-Pictet International Ltd., London, as it changes to separate accounts from mutual funds for the international segment of its $225 million pension fund.

Equifax, Atlanta, had about $18 million split evenly among an FT-Actuaries Europe and Pacific Basin Index account run by Travelers Investment Management Co., Hartford, Conn., and three mutual funds, according to Roger Dailey, vice president of corporate insurance and benefits. He declined to name the mutual fund managers.

Hill Samuel will run a balanced international fund that favors equities, Mr. Dailey said, while the Mellon-Pictet portfolio will be all equities. The firms will probably split the $13.5 million that had been in the mutual funds, Mr. Dailey said, although final amounts are yet to be determined. He said the switch to separate accounts was made to increase flexibility.

Debatin Associates Inc., Atlanta, assisted in the search.

DEPARTMENTS

Cash management	37	Opinion	10
Classified	44	P&I Age indexes	46
Financing	35	Portfolio management	33
International	21	PROPERTY	27
Letters	10	Proxy	15
Market beat	30	Valuation index	45
Money movers	38	Washington	41

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International questionnaires out

Questionnaires for *Pensions & Investment Age*'s annual profiles of the 50 largest international and global money managers of U.S. institutional tax-exempt assets are in the mail.

If you qualify for the listing and have not received your questionnaire by April 21, please contact Christine Philip, directory

Venture spirit flags

Asset flow drops 33%

By Trudy Ring

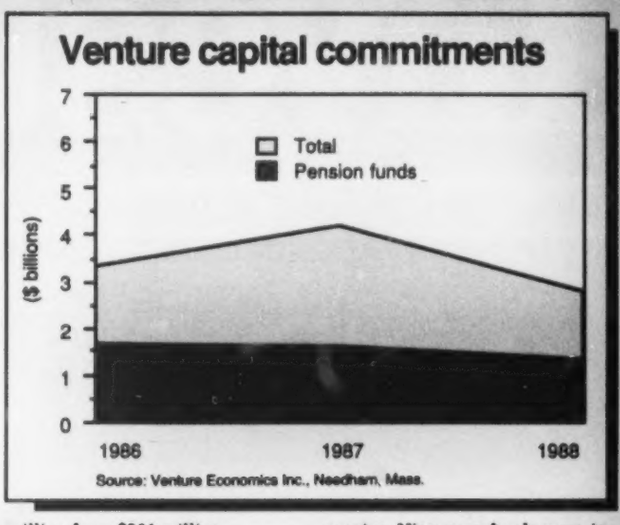
Commitments to venture capital funds fell by one-third in 1988, reflecting a difficult fund-raising environment and fewer huge funds seeking capital.

Some institutional investors have reached their venture capital asset allocation limits, while a few are pulling back until the flow of dollars there lessens.

According to the consulting firm Venture Economics Inc., Needham, Mass., commitments to independent, private venture capital firms totaled $2.8 billion in 1988, down from $4.2 billion the previous year.

Pension fund commitments to venture capital also decreased, to $1.3 billion from $1.6 billion, but pension funds' share of the total increased, to 47% from 39%. Commitments by endowments and foundations fell to $313 million from $418 million; their share of the total rose slightly, to 11% from 10%.

Commitments by foreign investors fell to $364 million from $543 million; by corporations, to $323 million from $460 million; by insurance companies, to $253 million from $627 million; and by individuals and families, to $236 million from $501 million.



The repercussions of the October 1987 stock market crash delayed fund raising early in 1988, although a record number of venture groups were seeking commitments by the third quarter, according to Venture Economics. Many of those groups, however, did not close their funds by year end.

Also, 13 "megafunds" — raising more than $100 million each — contributed to 1987's exceptional total, according to Venture Economics. Nine megafunds were included in the 1988 figure.

Highly experienced venture capital groups had the most success raising money in 1988; those with 10 or more years in the industry raised 49% of the dollars and accounted for 32% of the number of funds. Those with five to nine years of experience accounted for 38% of the dollars and 39% of the number of funds.

The 1988 total commitments figure is close to 1986's $3.3

Continued on page 46

Criterion finds buyer

By Fred Williams

HOUSTON — The Criterion Group will become a direct subsidiary of Transamerica Corp., the San Francisco insurance and financial services company, under Transamerica's plan to acquire Criterion in a $94.3 million cash offer.

Transamerica has agreed to pay $13 for each share of Criterion common stock in a deal that is expected to be completed by the end of the third quarter, subject to the approval of Criterion's shareholders.

Criterion Group is a holding company for Criterion Investment Management Co., a group of mutual funds and venture capital partnerships.

The announcement capped several months of speculation that Criterion was going to be sold (*Pensions & Investment Age*, April 3).

Criterion has approximately $10.1 billion in assets under management — about $2.2 billion in 24 mutual funds and $7.9 billion in separate accounts.

Charles Miller, Criterion's chairman, president and chief executive officer, said neither the investment style nor personnel will change as a result of the sale.

For Criterion, "the right partner showed up at the right time. They can add to our ability to grow the business and allow us to attract and compensate people well," Mr. Miller said.

Criterion will function as a wholly owned subsidiary, he said, and Transamerica "lets its subsidiaries operate independently."

"The name (Transamerica) is good for marketing our mutual funds, that's one of the strategic reasons for doing it," Mr. Miller said. According to a statement issued last week, the mutual fund operations will adopt the Transamerica name, but Criterion Investment Management Co. will not. No name has been decided upon for the venture capital operation.

Criterion has approximately 6.3 million shares of common stock outstanding. Following the announcement the company was seeking a buyer, the stock closed at a 52-week high of $14 March 29. Criterion stock closed at $12 on April 12, the day the sale was announced, compared with $12.25 April 11.

According to financial disclosure documents, Mr. Miller owns 1.7 million shares of Criterion stock, which would amount to $22.1 million if the sale is completed at $13 per share. ■

Alternative route taken

By Trudy Ring

Alternative investments were big draws in the first quarter, with large chunks of assets going to distressed real estate and indexed international bonds.

Among moves of money reported in *Pensions & Investment Age* during the quarter, $383 million went to real estate funds, with $325 million of that going to Trammell Crow Ventures Management Co., Dallas, for its Trammell Crow Equity Partners II, a closed-end fund buying from distressed sellers.

Indexed international bonds got a boost from the $8.3 billion New

Continued on page 46

Most new accounts* 1st quarter 1989

Firm	New accounts
Lowe, Brockenbrough	4
Morgan Stanley Asset	4
Northern Trust	4
Fisher Investments	3
Trammell Crow	3
Wells Fargo	3

* As reported in *Pensions & Investment Age*

Most new assets* 1st quarter 1989

Firm	$ millions
Trammell Crow	325
Rowe-Price Fleming	250
Bank One Indianapolis	85
Merus Capital	78
Wells Fargo	55
Acadian Asset	52

* As reported in *Pensions & Investment Age*

1989 PROXY SEASON

Behind-the-scenes action

Talks yield results before vote

By Marcia Parker

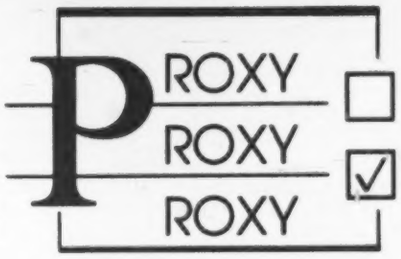
The 1989 proxy season, which opens officially with the springtime rite known as the annual meeting circuit, promises to be remarkable for what isn't on the ballot as well as for what is.

Pre-season negotiations between institutional investors and corporate managements on a host of corporate governance issues are at an all-time high, and have led to a number of agreements whereby institutional sponsors withdrew proxy resolutions in exchange for some action.

The Teachers Insurance and Annuity Association — College Retirement Equities Fund and Dayton Hudson Corp. announced in early April an agreement under which the pension system withdrew the resolution it had filed on Dayton Hudson's shareholder rights plan. Under the pact, Dayton Hudson agreed to submit its share rights plan, a so-called poison pill making the company unattractive to a corporate raider, to a vote of its shareholders within three years or redeem the plan prior to the company's 1992 annual shareholders meeting.

Several other institutional investors that are sponsoring various proxy resolutions — especially those calling for confidential voting — are meeting with companies behind the scenes to try to fashion compromises before the annual meetings.

Earlier this year, the California Public Employees' Retirement System dropped a proposal for a bylaw change creating a permanent shareholders advisory committee after Texaco Inc. agreed to select a pro-shareholder director, New York University President John Brademas (*Pensions & Investment Age*, Feb. 6). Texaco also has agreed to put its shareholder rights plan to a shareholder vote at its annual meeting.



Several companies, including Unocal Corp. and American Home Products Corp., agreed to adopt voluntary confidential voting, negating the need for shareholder activists to ask the companies to put voting resolutions on the 1989 or 1990 proxies (*P&I Age*, Jan. 23).

In the meantime, institutional shareholders and corporations and their advisers are gearing up for the campaign to win stockholder support for proxy resolutions on hundreds of corporate governance and social issues.

Besides dozens of poison pill resolutions, the 1989 proxy ballots of America's leading corporations will sport a host of other corporate governance-related issues such as confidential voting, equal access to the proxy, repeal of anti-takeover provisions and ending greenmail.

Observers are keenly interested in resolutions that ask Boeing Co., Ford Motor Co., Kimberly-Clark Corp. and Lockheed Corp. to opt out of Delaware's anti-takeover law. These are first-time proposals this year and are co-sponsored by the New York City Retirement System, the California employees' system and the California State Teachers' Retirement System. The pension funds, which hold small stakes in the companies, take issue with the Delaware law that gives the board of directors — instead of shareholders — the power to decide the future of the company in a hostile takeover situation. Only Lockheed has yet to recommend how shareholders should vote; the other companies have suggested that shareholders oppose the resolutions.

Other first-time resolutions that will be watched are at Dow Chemical Corp., which is being asked to put any "golden parachutes" to a shareholder vote, and 10 companies being called on by Common Cause to report on how much their political action committees give to congressional candidates. The Washington lobbying group is seeking to get these companies, which include Citicorp, General Electric Co. and Mobil Corp., to release information to interested shareholders in what long has been a somewhat secretive practice. ■

Major 1989 corporate governance shareholder proposals

Poison pills (20)
Avon Products
Halliburton
Squibb

Confidential voting (40)
Coca-Cola
NCR
Wal-Mart Stores

Anti-greenmail (3)
Ameritrust
J.C. Penney

Opt out of Delaware takeover law (4)
Boeing
Lockheed

Golden parachutes (1)
Dow Chemical

Equal access to the proxy (3)
Amoco
Bank of New England

Lower supermajority voting requirements (3)
Outboard Marine
United Technologies

Repeal classified board (31)
Ameritech
McDermott Int'l
Sears, Roebuck

Provide for cumulative voting (34)
AMR
E.I. du Pont de Nemours
F.W. Woolworth

Restore limited pre-emptive rights (10)
Bethlehem Steel
Hercules
Warner-Lambert

Parentheses indicate total number of companies facing each proposal

Source: Investor Responsibility Research Center Inc., Washington

SEC stirs industry

Managers fear imposed proxy policy

By Joel Chernoff

WASHINGTON — Signs that the Securities and Exchange Commission might adopt a uniform proxy voting rule may spur the mutual fund and managed fund industries to adopt their own policies.

Voting practices by mutual funds now are "all over the lot," said one money manager, although the industry is giving the issue increasing attention.

"The industry is moving toward (adopting) explicit authority over who votes the actual shares," said Charles Finlayson, general counsel of Loomis, Sayles & Co. Inc., Boston.

But if the SEC takes up the issue, as investment management division chief Kathryn McGrath warned last month, managers might move more swiftly toward a coherent policy.

Ms. McGrath said the SEC is leaning toward the Department of Labor's views on proxy voting, and might develop a system by which the industry can make its views known (*Pensions & Investment Age*, April 3).

But Ms. McGrath also said any rule-making process will have "the implication of retroactive effect," which could send chills down the spines of money managers who may be ignoring their proxy voting duties.

For more than a year, the Labor Department has told managers of private pension assets that they must consider their proxy voting responsibilities carefully, and not vote blindly with management, sidestep controversial issues or allow plan sponsors to direct the vote on only select issues.

But the Labor Department has jurisdiction only over a piece of the institutional investor universe. At the end of 1987, private pension funds, which are regulated by the Employee Retirement Income Security Act of 1974, had $1.444 trillion in assets.

Meanwhile, public pension funds had $521 billion, mutual funds had $790 billion, insurance companies had $1.011 trillion, non-pension bank trust departments held $693 billion and foundations and endowments had $131 billion, according to a study by the Columbia University School of Law's Center for Law and Economics Studies' Institutional Investor Project.

Another $500 billion billion rests in the accounts of wealthy individuals.

The SEC regulates registered investment advisers under the 1940 Investment Advisers Act and mutual funds under the 1940 Investment Company Act, but does not oversee assets held in bank trust departments or those in insurance company general accounts.

While the SEC is not expected to take up the issue in the near future, the agency's interest clearly has grabbed the attention of the mutual fund industry and those involved in corporate governance issues.

"To have a full-scale discussion here against the Labor Department standard is what we have been waiting for," said Robert A.G. Monks, president of Institutional Shareholder Services Inc., Washington.

ISS, a consulting organization for institutional investors, has been pressing various governmental bodies to spell out the proxy voting duties of businesses under their purview. Earlier, the comptroller of the currency had written ISS that banks must have written policies and maintain records of their votes, affirming the regulator's earlier position.

A Nov. 9 letter sent by an unnamed ISS client to the SEC asked whether the same fiduciary rules applied under the Investment Company Act as under ERISA.

The inquiry also asked whether delegation of voting is permitted, if record-keeping is required on voting practices, whether a fiduciary might have to remove himself from a vote

Continued on page 16

FEATURE

Corporations need motherhood lesson

By Sarah Teslik

The experience of the past few years has confirmed what common sense had long suggested: most corporate executives view corporate governance as about as appealing and appropriate as taking your mother along on a date. A good mother, we all know, should care about her children, but be very careful not to meddle.

A good institutional investor, according to corporate America, should behave similarly. Quietly and cheerfully buying and selling apparently is OK, although the etiquette sometimes gets tricky.

- You must not buy and sell too much, or you are a short-term churner who destroys corporations, communities and marriages.
- You must not buy and sell too little.
- You must not invest broadly and passively — the equivalent of indexing whether or not such vehicles are used — because then you are a cruel and heartless beast who does not care about individual companies or the long term.
- You must buy and sell for your beneficiaries, except when a deviation from that purpose is in corporations' interests.

Voting is a gray area: voting for management slates and for management proposals is OK; a rare and passive 'no' vote may be OK at someone else's corporation. Anything else is meddling.

It is widely assumed institutional investors who do "anything else" do so because they want to act like managements. They want to make widgets. If they can't do that, they at least want to second-guess whether the right widgets were made in the right quantity for the right price.

Even those who recognize this is not only untrue but impossible, assume institutional investors want special treatment with regard to the selection of directors: Like "a chicken in every pot," they want "a shareholder on every board."

Fortunately, the sides are not as far apart as they think.

The mother analogy is apt. Even a consummate party-animal mother cannot go on all her children's dates if she has 1,000 children in her portfolio. She can neither manage nor oversee their adult lives, yet she wants them to do well.

The appropriate approach should be as obvious in the corporate governance world as it is in the nursery. Working to get the system right is the best (and probably the only) effective way to maximize the likelihood that each of many children will do well.

In childrearing, of course, this

Continued on page 16

New ESOPs

Continued from page 1
Oakland, Calif.

A Delaware Chancery Court upheld Polaroid's ESOP, even though it was enlarged to 14% of common shares to thwart a takeover by Shamrock Holdings Inc., Burbank, Calif.

The ruling acknowledged the ESOP's anti-takeover effect, but upheld the company's broader motives for the ESOP to improve shareholder value by redesigning the form of employee benefits.

The Tribune's $350 million enlargement of its ESOP will raise its share of voting stock to 10% from 1%, increasing control by managers, directors and employees to close to 40% in all from about 27% of the shares outstanding.

Tribune will use the ESOP to replace the company's profit-sharing plan this year and, in the next decade, might use it to replace part or all of its defined benefit pension plan.

Lockheed's new $500 million ESOP will become the company's biggest shareholder, owning 17% of its common stock. Lockheed will use the ESOP to supplant cash payments as the company's matching contribution to an existing 401(k) savings plan.

NWA executives were unavailable to discuss the ESOP under consideration.

Among the tax advantages, Mr. Rosen noted dividends paid to ESOPs, unlike those paid to other shareholders, are tax deductible to corporations.

Except in a few situations, such as Polaroid or more recently Federal-Mogul Corp., he said it is difficult to single out takeover threats as a prime force moving companies to ESOPs.

The Tribune adopted the enlarged ESOP after a rumor the Robert M. Bass Group of Dallas accumulated 2% to 3% of the shares and might make a bid for the company. Representatives of the Bass Group could not be reached for comment.

Lockheed formed the ESOP as part of a broad restructuring of the company — including a stock repurchase program — after Harold Simmons, a Dallas investor, revealed he owns 5.3% of the company. Subsequently, Mr. Simmons was reported to have said he was considering selling some shares in response to Lockheed's stock repurchase.

NWA rejected a $2.7 billion offer by investor Marvin Davis, though he was reported to have said he will proceed with an acquisition.

Another offer came from a group that was reported to hold a 4.9% stake and include former NWA director Gary Wilson. Its status couldn't be determined.

Tribune sold $350 million of a new series convertible preferred stock to its ESOP as part of a move to bring the plan's ownership of the company to 10% from 1%. The company will use the proceeds to buy back as many as 8 million of its 74.5 million common shares outstanding to avoid dilution to existing shareholders.

The 1.6 million in preferred shares being sold to the ESOP are convertible to about 6.4 million common shares at $55 each. The preferred shares have 4.58 votes each, or roughly an immediate 10% voting control in the company.

LaSalle National Bank, Chicago, the ESOP trustee, will vote unallocated shares held by the plan in the same proportion as allocated shares voted by employees.

Duff & Phelps Inc., Chicago, acted as financial adviser to the trustee; Lazard Freres and Merrill Lynch & Co. were Tribune's investment bankers.

Tribune, which is financing temporarily the ESOP's purchase of the preferred, expects to refinance the loan through a private placement of notes guaranteed by the company.

In addition to using the expanded ESOP to replace the Tribune's existing profit-sharing plan, management has the option by 1998 of using the ESOP to replace or finance part of the company's existing defined benefit pension plan, said Martha O. Lindeman, Tribune manager-communications.

Ned Zachar, Duff & Phelps media analyst who wasn't involved with the advisory work, agrees the ESOP will have little if any dilutive effect for existing shareholders, because it is coupled with the repurchased stock. "It may even be anti-dilutive," he added.

Ms. Lindeman denied the ESOP was expanded to thwart any hostile takeover threat.

"We've been thinking about an ESOP for a while," she said. "We put (a small) one in place last year and began considering expanding it" before recent takeover speculation. She said she knew of no takeover threat, despite the Bass rumor.

Nevertheless, Mr. Zachar said the ESOP will provide an additional anti-takeover device for the company, although he questioned the Tribune's need for it. The 27% of the stock already held by management, directors, employees and the ESOP before its expansion could serve to thwart a hostile bid.

Among other anti-takeover defenses, Mr. Zachar noted, the company requires 80% of shareholders to approve a takeover. Moreover, Delaware, where Tribune is incorporated, requires 85% of shareholders to approve a takeover.

Unlike at Tribune, where essentially all employees participate in the ESOP, Lockheed created its ESOP for salaried employees. The ESOP will acquire about 10.5 million new common shares for $500 million. The company will use the proceeds to buy back the same number of shares in the open market and private transactions. Bankers Trust Co. handled a private placement of notes, guaranteed by Lockheed, to finance the loan to the ESOP.

Lockheed will use the plan to replace cash as its employee-matching payments to an existing 401(k) plan. The company matching will increase to 60% under the ESOP from 50%.

"Basically what it amounts to is that we are pre-funding employee benefit obligations," said Robert Slayman, director-public information. "The ESOP has purchased enough shares to distribute over time."

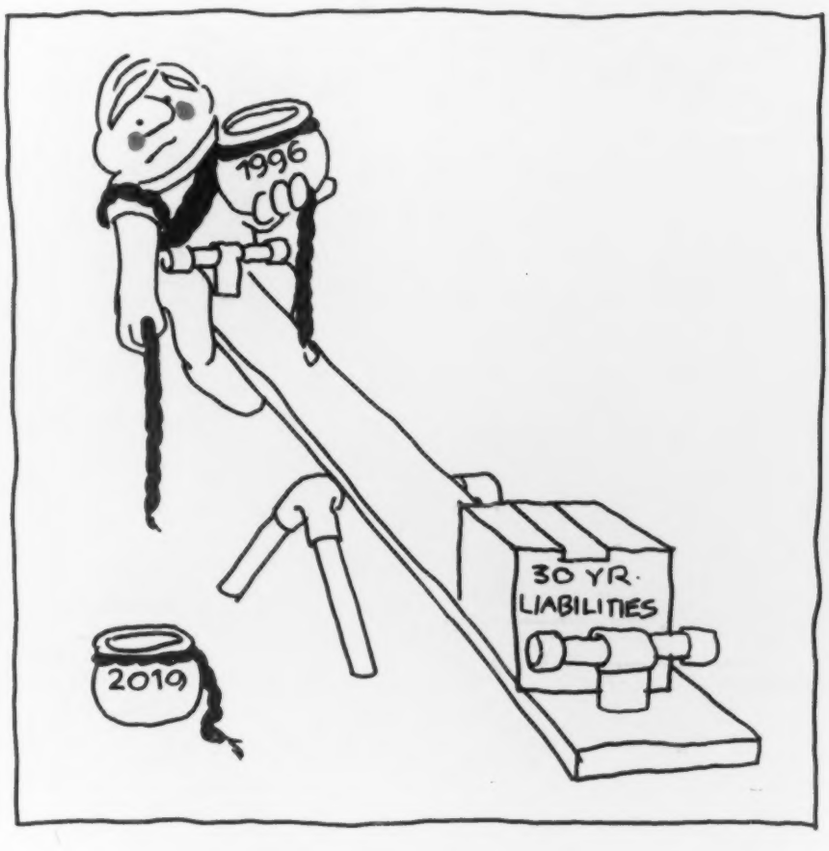
He said the ESOP was established mainly as an incentive to employee performance. "There's no denying it has (an anti-takeover) effect, a deterrent," he added. "But that wasn't the principal motivation" for setting it up.

George Podrasky, Duff & Phelps analyst, said, anti-takeover defense "had to be a strong consideration."

He pointed out that "management doesn't own a significant amount of stock." Officers and directors own 1.7% of common shares in total.

Houlihan Lokey Howard & Zukin Inc., Los Angeles, advised the ESOP's trustee, U.S. Trust Co. of California, New York.

Unallocated shares in the ESOP will be voted in the same proportion as allocated shares are voted



Mismatch?

Independence Investment Associates

One Liberty Square, Boston, Massachusetts 02109
617 292 8700

Bill locks up

Continued from page 1
income tax and a 15% excise tax.

"When you add up all those elements, I think in the vast majority of cases you're not going to have any reversion left over," said Jerry Uslander, a principal with William M. Mercer Meidinger Hansen Inc., Louisville, Ky.

Research during the bill's development showed surpluses don't come from good investment performance, but rather from actuarial funding methods (which require advance funding in the early years of a plan) and selection of interest rate assumptions, bill advocates said.

"Thus, the excess assets are not really the product of any actuarial error, but rather the result of an employer prematurely terminating the plan before the completion of the normal funding cycle," said Rep. William Clay, D-Mo. Mr. Clay, chairman of the House Labor-Management Relations Subcommittee, introduced an identical bill in the House.

Had the bill been law in the past, Mr. Metzenbaum noted, FMC Corp. would have received 24% of a $726 million surplus; Occidental Petroleum Corp., 27% of a $233 million surplus from a Cities Service Co. plan; and Enron Corp., 49% of a $232 million surplus.

Mr. Metzenbaum has placed the bill on a fast track because of the May 1 IRS moratorium deadline.

The bill was introduced April 4, then reviewed in a Senate Labor Subcommittee hearing a week later. A vote by the full Labor Committee tentatively is scheduled for April 19. The House bill, H.R. 1661, will be reviewed and voted on by the House Labor-Management Relations Subcommittee the day before.

With no other bill to attach it to, how Messrs. Metzenbaum and Clay expect to speed the measure through committee remains a mystery. What's more, there's a decent chance the tax-writing committees will attempt to assert jurisdiction on the measures, especially given the heated rivalry between the House Education and Labor Committee and the Ways and Means Committee.

And some legislators might question the need for the bill, given the drop-off in terminations of overfunded plans and previous measures that have imposed a 15% excise tax on reversions.

Some think the bill's leaders will try to take it directly to the floors of the House and Senate. Still, it appears unlikely the Bush administration will embrace it.

In introducing the measure, Mr. Metzenbaum said he was trying to give workers and retirees "a fair share" of pension plans, while encouraging employers that terminate plans to establish defined benefit plans as generous as their old plans and discouraging use of pension plans in mergers and takeovers.

He said almost $20 billion has been taken out of about 2,000 pension plans since 1981, nearly all involving financially healthy companies and many involving some type of merger or takeover.

Meanwhile, fewer companies set up equivalent replacement plans for workers. In 1988, "only 25% of the healthy firms terminating pension plans set up a comparable defined benefit plan," while 40% established a defined contribution plan, he said.

Worse, nearly 35% of the healthy firms did not create any new pension plan, up from 21% two years ago, he said.

Still, business experts say the bill will have a devastating effect on pension plans.

The funding cushion based on future obligations and the COLAs for retirees are the provisions raising the most ire.

Those "are a radical departure from the nature of our voluntary, private pension system and virtually ensure that almost no company will ever retain surplus assets from a terminated plan — even if an identical successor defined benefit plan is established following termination," Howard C. Weizmann, executive director of the Association of Private Pension and Welfare Plans, Washington, wrote in a letter to Mr. Metzenbaum.

Benefits experts argued the bill would cause employers to curtail funding of their plans. "What most employers will do is to defund these plans, and when the assets and liabilities are in sync, they will terminate these plans," said Dick Raskin, consulting actuary with The Wyatt Co., New York.

Speaking on behalf of the ERISA Industry Committee, Chester S. Labedz, compensation and benefits counsel to Textron Inc., told the Senate panel: "The bill also will impose, for the first time, federally mandated benefits upon private-sector employers. In our view, the bill represents a back-door effort to mandate cost-of-living increases for all retirees and beneficiaries."

Business groups argued the bill would provide windfall benefits to employees covered by other pension plans and put government contractors in a bind because the government claims a portion of excess assets. They also said it raises other tax issues.

But organized labor and retiree groups think the legislation would protect plan participants. ■

The *P&I Age* monthly indexes track changes in the Standard & Poor's 500, Frank Russell Co.'s Russell 3000 stock index, the Ryan Index of fixed-income securities, the Shearson Lehman Hutton Government/Corporate bond index and the Salomon Brothers Broad Investment Grade bond index.

P&I Age March Indexes

	Latest mo.	Year to-date	Trailing 12 mos.
S&P 500	2.37	7.08	18.10
Russell 3000	2.28	7.25	17.33
Ryan Index	0.58	0.87	3.54
Shearson Lehman Gov't./Corp.	0.53	1.09	5.00
Salomon BIG	0.43	1.20	5.24

Source: Rogers, Casey & Associates Inc. and Frank Russell Co.

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Alternative path

Continued from page 2
York City Teachers' Retirement System, which allocated $250 million to be managed in this strategy by Rowe Price-Fleming International Inc., Baltimore.

International equities attracted $183.5 million to be actively managed and $11.75 million in passive or indexed funds. The largest single international allocation reported was $50 million by the $3.3 billion Utah State Retirement System, Salt Lake City, to Baring International Investment Ltd., London. Actively managed international bonds drew just $10 million.

Commitments reported for other asset classes were $550.5 million for actively managed domestic equities; $201.5 million for active domestic bonds; $99.5 million for indexed domestic stocks; $54.3 million for balanced accounts; $40 million for guaranteed investment contracts; and $17 million for venture capital.

The numbers are based only on moves of money reported in *P&I Age* during the quarter.

Despite the great popularity of indexing, the ratio of active to indexed equities follows generally established patterns — numerous small accounts for active management and fewer, larger accounts for indexing. Also, tax-exempt funds appear to be moving into more specialized areas of indexing, such as the foreign bond index strategy.

"It is interesting to see the trend back toward active management," said Ronald D. Peyton, president of Callan Associates Inc., San Francisco. Pension funds are seeing active managers still can add value, he said.

Rob Gernstetter, senior consultant with Stratford Advisory Group, Chicago, agreed indexing is becoming more specialized, with passive funds targeting certain market segments.

Russ Hill, senior vice president of Stratford, added the bull market of the past few years has favored large-capitalization, fully invested portfolios like Standard & Poor's 500 Stock Index funds.

Mr. Peyton was not surprised by the popularity of real estate and international investing. Investment in distressed properties diversifies a real estate portfolio but also adds risk, so it should be balanced with other types of real estate investments, he said.

Mr. Gernstetter said special situation real estate funds and separate accounts seem to be attracting the most attention.

As for international, Mr. Peyton said, "That will be the growth area of the consulting business and the investment management business."

"From a fixed-income standpoint, global diversification makes a lot of sense," Mr. Hill added. Domestic and foreign bond markets have low correlation, so global diversification is a sort of insurance policy against a decline in one market, he said.

Joining Trammell Crow and Rowe Price-Fleming among the top managers for the quarter in terms of assets gained are one international manager, Acadian Asset Management Inc., Boston; one indexer, Wells Fargo Investment Advisors, San Francisco; and one active equity manager, Merus Capital Management, San Francisco.

Among the top firms in terms of number of accounts, besides Trammell Crow and Wells Fargo, were two managing a variety of asset classes — Lowe, Brockenbrough, Tierney & Tattersall Inc., Richmond, Va., and Morgan Stanley Asset Management, New York. One other, Fisher Investments Inc., Woodside, Calif., is an active equity manager; the remaining one, Northern Trust Co., Chicago, got its new accounts for master trustee or master custodial services. ■

Venturing spirit

Continued from page 2
billion, which included $1 billion raised by a single fund. Also, pension funds' share of the 1988 total was close to their 50% share of the 1986 figure.

Pension funds and other tax-exempt investors that made venture capital commitments last year see it as being more difficult, but still possible, to make high returns in that asset class. The flood of dollars into venture capital has put pressure on returns.

"It's certainly not as attractive as it was five or six years ago, and you have to be selective as to where you put the money, but there are still opportunities," said Stephen L. Albertalli, director of investor relations at Corning Glass Works, Corning, N.Y.

Mr. Albertalli said the $750 million Corning Glass pension to venture capital in 1988, bringing its total to the allocation limit of about 2.5% of the fund.

The $480 million Seattle City Employees' Retirement System made its first venture capital commitments, $6 million, in 1988. It will put in more if an asset allocation study, now in progress, indicates a need, said Roger Howeiler, executive director.

"We feel there are still opportunities in the venture capital area, even though they're not what they were 10 years ago," he said.

The $11 billion Washington State Investment Board, Olympia, committed $25 million to venture capital in 1988, bringing its total commitments there to about $330 million, said David Weig, executive director.

The board has no plans for additional commitments in the future, Mr. Weig said; officials are waiting to see fewer players and fewer dollars going into the market.

Les Gallaugher, senior investment officer at the University of California — Berkeley, said many institutions may be stepping back because of a concern about too many dollars depressing returns. Also, he said, the stock market has done so well in recent years that perhaps investors didn't see enough added value from venture capital to make investment there worthwhile, and some investors may not have been sufficiently selective about their venture capital investments.

That said, Mr. Gallaugher continues to look for venture capital opportunities. "You have to be able to make a commitment when the opportunity presents itself," he said. The university has about 2% of its $10 billion pension and endowment assets in venture capital, including a substantial declined to state that figure.

The $2.8 billion Nevada Public Employees' Retirement System, Carson City, committed about $8 million last year, bringing its total commitments to 1% of the fund, said Laura Wallace, investment officer. It is seeking other venture investments, having a goal of 1.6% in this asset class.

"Tightly controlled and in small doses, I think it can add value," Ms. Wallace said.

Venture capitalist Jeffrey Collinson, managing partner of Schroder Ventures, New York, admitted fund raising is difficult. Institutions are looking at the aggregate amount of dollars in venture capital and waiting to see how it works out, he said.

Schroder Ventures, however, has made some inroads; it soon will close a $40 million fund with about one-fourth of the commitments from U.S. tax-exempt institutions. Its previous fund, $37.5 million raised in 1983, was pri-